

2016

Travis County Tax Office Motor Vehicle Division

**Travis County Auditor's Office
Risk Evaluation & Consulting Division
October 31, 2016**

TRAVIS COUNTY
AUDITOR'S OFFICE

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From: Nicki Riley, CPA
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Date: October 31, 2016

Subject: Tax Office Motor Vehicle Division Review

Scheduled as part of our statutory requirements, the Risk Evaluation and Consulting (REC) Division of the Travis County Auditor's Office has completed an examination and risk assessment follow-up of the Travis County Tax Assessor-Collector's Motor Vehicle Division. We conducted our review in accordance with the applicable statutes governing the County Auditor's Office, and those relating to County financial and accounting protocols. As a result of our review, we are providing this report on our findings and recommendations, as well as a status update on the "Areas of Concern" noted in the FY14 Risk Assessment.

BACKGROUND

The mission of the Travis County Tax Assessor-Collector's Office is to assess, collect, and disburse property taxes; to register and issue titles for motor vehicles; to collect probated defendants' court fines and fees for County Courts at Law and Justice of the Peace Courts; and to register eligible citizens to vote. The goals of the Motor Vehicle Division are to collect motor vehicle registration fees and to process and issue motor vehicle titles in accordance with Texas motor vehicle laws and regulations. In addition, Motor Vehicle Satellite locations collect property taxes for the Property Tax Division. The Motor Vehicle Division is responsible for tracking, storing, and disbursing vehicle license plates and tags; they also collect, track and disburse the fees collected when these tags and plates are issued.

OBJECTIVE AND SCOPE OF EXAMINATION

The primary objective of this examination was to assess the adequacy and effectiveness of the overall system of financial controls in place for the Motor Vehicle Division during the period March 1, 2015 to February 29, 2016. We also performed a follow-up on the “Areas of Concern” we noted in our FY14 Risk Assessment for this division.

EXAMINATION METHODOLOGY

Our work was based on applying sampling procedures to office records and on verbal and written representations from this division of the Tax Office. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques and analytical models would not necessarily disclose all concerns in this division’s records and controls that might be material weaknesses or misstatements. In regards to the written and verbal representations made by Tax Office personnel, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

SUMMARY OF FINDINGS


Based upon our examination, we noted no significant new findings. However, a number of issues noted in the FY14 Risk Assessment have not been corrected.

EXAMINATION TEAM

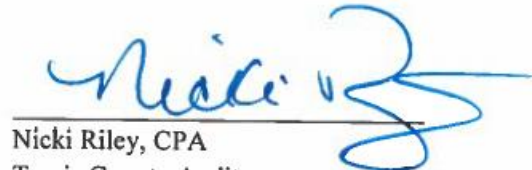
Lisa Denton, CFE, Senior Auditor
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CLOSING

This report is intended solely for the information and use of your office and the Commissioners Court. We greatly appreciate the cooperation and assistance received from the management and staff of the Travis County Tax Assessor-Collector’s Office during this examination and risk assessment follow-up. Please contact us if you have any questions or concerns regarding this report.



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Examination File

STATUS OF PRIOR AREAS OF CONCERN

During our previous risk assessment of the Motor Vehicle Division (#14-03 FY14 Risk Assessment issued on October 21, 2014), we noted a number of areas of concern. The following section details these items, with an update on the current status of each.

OVERALL

The Motor Vehicle Division performs a large number of individual transactions and is tasked with collecting and safeguarding a material amount of State and County revenue. During the course of documenting processes and performing the risk assessment, several internal control weaknesses came to our attention that could lead to financial losses for the County. Internal controls are particularly weak at the satellite offices. Overall, we recommend that Tax Office Management review this division's staffing levels and levels of management oversight. We also recommend a comprehensive review of cash controls.

Current Status: We observed at the satellite offices that the Tax Office has increased management oversight and staffing levels to assist with the demands of customer volume. A comprehensive review of cash controls has not been performed.

Management Response

MV and Financial Managers and Supervisors conducted a comprehensive review and implemented the following cash controls:

- Got cash drawers and keys for all clerks
- Receipts were moved out of customer reach
- All employees are required to secure their inventory
- Double count of funds +\$3000 must be run through cash counters

RTS (REGISTRATION AND TITLE SYSTEM) ISSUE

There is no periodic review or verification of the standard presumptive values (SPV) entered into RTS by the Tax Specialists, which could result in insufficient sales tax being collected for the State. The SPV applies to motor vehicle transfers in private-party sales. For these transactions, the motor vehicle sales tax is calculated at 6.25% of either the sales price or 80% of the vehicle's SPV, whichever is higher. The SPV is provided by RTS based on the vehicle information entered by the Tax Specialist; however, the Tax Specialist must manually enter into RTS the higher of either the SPV or sales price. Financial losses could occur due to incorrect values being entered into this field in RTS. Periodic third party review of SPV values would be a positive internal control to limit this risk.

Current Status: We noted that the Tax Supervisors perform sample testing of title transactions on the days they are at the satellite offices. This sample testing includes reviewing SPVs, even trades, and gift transactions for reasonableness.

Management Response

In addition to supervisory review, Tax Office Internal Auditors also review SPVs, even trades and gift transactions in periodic audits.

SATELLITE COLLECTIONS

The following areas of concern were noted at the satellite collection locations:

1. Tax Office management is rarely onsite at the satellite locations. Onsite management is insufficient to properly review deposits, approve voids, and oversee daily functions. Satellite employees have less opportunity to be trained and counselled by management and may be forced to make decisions or deal with situations better handled by a manager.

Current Status: The Tax Office increased management oversight, and the Tax Supervisors are on-site at the satellite offices for a minimum of two days each week. The only exception is the Satellite Four Office where the manager is only available when requested by the Lead Tax Specialist. When the Tax Supervisors are on-site, they perform sample testing by reviewing title transactions (e.g. SPVs, even trades, gifts), performing cash counts, and verifying deposits. They also perform security functions, such as verifying that safes and registers are locked, checks are placed in cash drawers, badges are displayed, and confidential information is being shredded.

Management Response

The Satellite Four Office now has a supervisor dedicated to visit twice weekly, the same as the other three offices.

2. There is a lack of segregation of duties at these offices. Each Tax Specialist has the ability to collect and enter payments, void receipts, and prepare deposits. The Lead Tax Specialist reviews all the daily RTS collections reports for discrepancies and verifies that voids have supporting documentation retained in the file. However, due to the volume of transactions, the Lead must also assist customers, take payments, void receipts, and prepare the daily deposit. There is no independent verification of funds received to the amount deposited, prior to the batches being sent to the Accounting Division for review.

Current Status: The Lead Tax Specialists continue to have the ability to collect and enter payments, void receipts, and prepare deposits.

Management Response

Segregation of duties has been listed as reason for additional staff in the FY14, FY15 and FY16 budgets. Without the required additional space, which we have requested and turned down, the lack of segregation of duties, particularly in the satellite offices, will continue to exist. One thing to note regarding independent review of transactions is the fact that the RTS system documents transactions electronically, which is monitored by a supervisor, and further review follows when a Lead verifies the deposit.

3. It appears cash handling policies and procedures are not being consistently followed. For example, it appears some employees are not adhering to the second count for cash transactions greater than \$3,000. In addition, there are concerns that transactions are not processed at arm's length (i.e. assisting friends and family) and that violations of cash handling policies are not immediately reported to supervisors.

Current Status: These concerns are no longer an issue.

4. Procedures have not been put in place requiring changes to safe combinations upon employee transfer or termination. We noted that safe combinations have not been changed in many years.

Current Status: No procedures have been put in place to require changing safe combinations when employees transfer or terminate.

Management Response

Once an employee leaves the office, she/he cannot enter the facility without a security badge.

5. Cash drawers are not always kept locked, thus leaving funds unsecured when the employee is away from their workstation. We noted keys were left in the cash drawers when the Tax Specialists were away from their workstations or out to lunch. We recommend all funds be secured in a locked cash drawer when the employee is away from their workstation.

Current Status: All cash drawers have been replaced with locked drawers equipped with a drop-slot for checks. There are two keys per drawer, one is issued to the Tax Specialist and the other is kept in a small safe. Only the Lead Tax Specialist and Tax Supervisor have the combination. On a daily basis, the Lead Tax Specialist verifies the cash drawers are secure when the employees are away from their registers. When the Tax Supervisors are on-site, they enforce the security of the drawers. Additionally, when the Tax Office Internal Audit team conducts a cash audit, they verify these security protocols.

6. Checks, credit card receipts, and supporting documents are placed on document trays at the Tax Specialists' workstations until the end of the day. In some instances, these document trays were next to the lobby windows, within reach of the customers. Checks placed on these document trays are not secured when the employee is away from their workstation and may be susceptible to loss or misappropriation due to insufficient barriers to physical access. We recommend all funds be secured when the employee is away from their workstation.

Current Status: Checks are secured in the locked cash drawers, and credit card receipts and supporting documents are placed in trays away from the lobby windows.

7. The Lead Tax Specialists have full access to the inventory (e.g.: license plates, placards, etc.) because they request new inventory from the main office, receive the new inventory, and allocate the inventory to the satellite staff including themselves. These Leads also perform regular physical inventories instead of an independent party. We also noted that a few locations do not perform the weekly inventories on a regular basis. We recommend a weekly inventory be performed by an independent party.

Current Status: The Lead Tax Specialists conduct a physical inventory of all accountable items once per month, and the Tax Supervisor conducts a physical inventory every two months. Also, an inventory is conducted when supplies are issued to each Tax Specialist. In the event that a temporary employee is assigned to work at the satellite, an inventory of issued supplies is conducted upon arrival and departure of the temporary employee. Additionally, the Internal Audit team conducts a complete physical inventory of all accountable items every quarter.

Management Response

This is a resource issue. Electronic audit could be conducted weekly by Inventory Control Section. Inventory staff will start doing weekly employee audits at the satellite offices (8/15/16). When they are not able to go, an electronic audit will be conducted.

8. Inventory at three of the four satellite locations is not properly safeguarded. Janitorial personnel has access to inventory stored on shelves in the open storage room. Also, cabinets for non-allocated items (e.g. combinations plates) have broken locks and are easily accessible. At some locations, the cleaning staff may also have access to the office after hours when the Tax Office employees are not present.

Current Status: No change.

Management Response

MLK Satellite – would have to add to the building to construct a cage for inventory; IT closet has a lock, but no access allowed

Oak Hill Satellite – this is a keyed door, and the lock on the door is functioning. Additional keys have been made for all permanent staff. They have been instructed to secure the inventory room and the back office door, effective 8/8/16.

McKinney Falls – secured

Pflugerville – proposed renovation will address this issue

9. Documents containing confidential information are picked up by the Tax Office courier for off-site shredding. This vital information is placed in used paper boxes and taped closed leaving the customers' information susceptible to misappropriation if the boxes are lost or misplaced. Onsite shredders or locked containers for transporting documentation would help ensure this information is properly safeguarded.

Current Status: Two of the four satellite offices are now equipped with shredders to properly destroy confidential information. The offices without shredders continue to send their documents to the main office for destruction. Locked containers are not being utilized at this time.

10. Broken copiers and currency counters hindered staff's ability to perform daily activities in an efficient manner. Currency counters assist the close out procedures and reduce the error rate of this process, while copiers serve a number of functions in these locations.

Current Status: All satellite offices now have functioning copiers and currency counters.

ITEMS NOTED AT SPECIFIC SATELLITE LOCATIONS

1. Satellite One's safe is kept unlocked throughout the day, thus funds on hand are not properly safeguarded. The safe is unlocked in the morning and the prior day's funds for deposit are left unsecure until the armored service picks them up. At this time, the armored service also delivers the next day's change funds, which are placed in the unlocked safe. The safe is locked at the end of the day when the current day's deposits are placed in it. The safe is in a storage room that has an exterior door that can be accessed by the cleaning staff and other County employees without knowledge of the Satellite One staff.

Current Status: The safe is now locked at all times; however, the closet door where the safe is located remains unlocked because there are no keys for the door.

Management Response

See Item 8 under Satellite Collections.

2. Satellite Two does not have security officers on-site or near the facility. All other satellite offices have constables at their locations. Due to the volume of transactions and the large amount of funds collected at this satellite location, the employees are concerned about their well-being should an emergency or theft occur.

Current Status: A constable is now on duty at this satellite office. The constable secures the area when the staff is opening and closing the office and when the armored car service picks up the deposits.

Management Response

As of the week beginning August 8, Constable 4 has extended from part time to full time coverage, as best they can. Security is desperately needed at this location, where lobby overcrowding has been documented by the fire marshal. While added security is most welcome, we are uncertain if it will continue, as a new constable will take over in January. This location collects approximately \$150,000 daily and constantly deals with long lines and unhappy customers.

3. Satellite Three's deposit bags are exchanged with the armored car service at the lobby window in the customer waiting area instead of in the secured office work area. We observed that the exchange of the prior day's deposit and the next day's change funds occurred while the armored guard was in the lobby area. The deposit bags were passed underneath the customer window while customers were standing in the waiting area. We recommend the exchange of deposit bags be performed within the secured office work area.

Current Status: The exchange between the Tax Office and the armored car service personnel of the prior day's deposit and the next day's change funds occurs inside the secured office in view of the cameras.

4. Satellite Four does not have an updated list of active armored car personnel in order for staff to verify County funds are being handled by approved persons.

Current Status: The Lead Tax Specialist indicated that, approximately two years ago, a new armored service took over and never provided a list. Additionally, the Lead stated that the same person picks up the deposits every day. In the event that the usual person is not available, the armored service calls the Lead and provides the substitute guard's information to the office.

CENTRAL INVENTORY

The TxDMV requires that all license plates, handicap placards, and Form 31 documents be classified as accountable inventory. The Motor Vehicle Division allocates inventory items to the main office employees, satellite locations, substations, title companies, and auto dealerships. The following areas of concern were noted regarding the inventory:

1. Each Tax Specialist is allocated boxed inventory items (e.g. license plates) and, at that time, the Tax Specialist becomes accountable for that inventory. The Tax Specialists may not always verify the sequence of inventory items at the time of allocation. The Tax Inventory staff recommends that the Tax Specialist only open boxes of plates when necessary and that they immediately check the sequence of those plates. However, some clerks open their boxes as soon as they are allocated to them, often discarding the box without verifying the exact sequence of the items in the box. The result could be a missing item in the sequence that is not properly detected. This was noted at all locations.

Current Status: Tax Specialists are required to complete a "Weekly Inventory Summary" report, which is turned in to the inventory staff and compared to the clerk's RTS inventory report. Any discrepancies are researched.

Management Response

Inventory control will start doing weekly physical employee audits. In the event they cannot go to the satellite office, an electronic audit will be conducted.

2. The auto dealerships process titles for new car sales, which entails issuing license plates for these vehicles. Tax Office staff allocates inventory to these auto dealerships and regularly reviews the RTS inventory allocation sheets for these items. However, the Tax Office does not conduct regular physical inventory audits at these auto dealerships to verify that the dealers are properly accounting for, tracking, and safeguarding this inventory.

Current Status: Inventory staff now perform quarterly dealer audit; additionally, the inventory staff reviews each dealer's RTS inventory report and researches any discrepancies.

Management Response

Please note: there are 102 dealers who have signed on as “web dealers,” meaning they offer digital vehicle titles. While this change in DMV process allows dealers and customers a more “green” choice, it has caused more work for the tax office, specifically in the time constraints associated with auditing the transactions. This unfunded mandate becomes even more complicated when the dealer requests and is approved to keep inventory. Currently there are 26 dealers whose inventory is audited by a staff of three FTEs. As the number of dealers who request inventory grows, there will be a need for additional oversight.